

PAROWAN CITY, UTAH
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2006

PAROWAN CITY, UTAH

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PAROWAN CITY, UTAH

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FINANCIAL SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

The Honorable City Council

Parowan City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Parowan City, Utah as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Parowan City, Utah as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2007, on our consideration of Parowan City, Utah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents and budgetary comparison information on page 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Parowan City, Utah's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of Parowan City, Utah. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wilson & Company

WILSON & COMPANY
Certified Public Accountants

February 21, 2007
Cedar City, Utah

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion of the Parowan City, Utah's financial performance provides an overview of the City's financial activities for the year ending June 30, 2006. This report is in conjunction with the City's financial statements.

Financial Highlights

The assets of the City exceeded its liabilities as of the close of the most recent year by \$8,383,833. Of this amount, \$2,616,613 may be used to meet the governments ongoing obligations to citizens and creditors.

The government's total net assets increased by \$764,071. The expenditures exceeded the revenue amounts, and expenditures were less than the adopted budgeted amounts.

At the close of the current year, the City governmental funds reported combined ending fund balances of \$529,895, an increase of \$129,011 in comparison with the prior year. Of this total amount, \$131,760 is available for spending at the government's discretion.

The City's total debt decreased by \$93,457 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways & streets, sanitation, and culture and recreation. The business-type activities of the City are water, sewer, electric, and pressurized irrigation services.

Fund financial statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and enterprise funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes of fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The City adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the adopted budget.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary funds

The City maintains four proprietary funds. *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, electric and pressurized irrigation service operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, electric and pressurized irrigation services which are considered the major funds of the City.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,383,833 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (69 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the year, the City is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Parowan City's Net Assets

	Governmental Activities		Business-type Activities	
	2005	2006	2005	2006
Current & other assets	\$ 1,061,299	\$ 1,501,836	\$ 1,521,850	\$ 2,596,761
Capital assets	3,378,858	3,325,350	3,667,859	5,204,356
Total assets	4,440,157	4,827,186	5,189,709	7,801,117
Long-term Liabilities outstanding	95,185	89,556	443,742	2,672,931
Other Liabilities	660,415	973,284	810,760	508,699
Total Liabilities	755,600	1,062,840	1,254,502	3,181,630
Net assets:				
Invested in cap. assets, net of debt	3,283,673	3,235,794	2,857,100	2,531,425
Restricted		398,135	464,564	1,502,262
Unrestricted	400,884	130,417	613,543	585,800
Total net assets	3,684,557	3,764,346	3,935,207	4,619,487

Changes in Parowan City's Net Assets

	Governmental Activities		Business-type Activities	
	2005	2006	2005	2006
Revenues:				
Program revenues				
Charges for services	\$ 398,933	\$ 690,616	\$ 2,274,572	\$ 2,359,856
Operating grants and contributions	291,899	244,517		
Capital grant and contributions	111,380	11,675	152,748	258,384
General revenues				
Property taxes	196,528	228,780		
General sales and use taxes	256,893	281,562		
Franchise taxes	88,483	102,175		
Earnings on investments	13,915	30,765	23,469	108,233
Miscellaneous	3,357	8,708		
Transfers	262,000	66,667	(262,000)	(66,667)
Total revenues	<u>1,623,388</u>	<u>1,665,465</u>	<u>2,188,789</u>	<u>2,659,806</u>
Expenses:				
General government	328,161	533,154		
Public safety	380,588	377,789		
Highways & streets	324,786	258,910		
Sanitation	146,891	142,259		
Culture & recreation	275,137	273,563		
Water fund			322,813	368,879
Sewer fund			389,985	273,675
Electric fund			1,220,008	1,236,295
Pressurized irrigation fund			120,733	96,676
Total expenses	<u>1,455,563</u>	<u>1,585,675</u>	<u>2,053,539</u>	<u>1,975,525</u>
Increase in net assets	<u>\$ 167,825</u>	<u>\$ 79,790</u>	<u>\$ 135,250</u>	<u>\$ 684,281</u>

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular *unreserved fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current year, the unreserved fund balance of the general fund was \$189,714. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water service fund at the end of the year amounted to \$65,286, for the sewer fund \$11,714, for the electric fund \$658,931 and for the pressurized irrigation fund (\$150,131).

The City has began a comprehensive impact fee study to determine the correct impact fee structure so that the impact fees collected by the City grow with municipal and industrial growth.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$231,942 can be briefly summarized as follows:

There was a \$205,088 increase in General Government, Highways & Streets increased by \$296, Culture & Recreation increased by \$7,964, Sanitation increased by \$13,700, and Operating Transfers out increased \$4,894.

During the year the City transferred \$66,667 from the electric fund to the general fund to balance general fund operations. The City has taken bold measures to ensure that future fund operations are self sustaining. The City has increased the tax rate for the coming year to make the general fund self sustaining and to reduce the requirement of transfers from the City's growing enterprise funds.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for activities as of June 30, 2006, amounts to \$8,529,706 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings and equipment.

Additional information of the City's capital assets can be found in the notes to the financial statements.

Long-term debt

At the end of the current year, the City had total bonds outstanding of \$2,762,487. The debt represents bonds issued to finance water, sewer and pressurized irrigation projects in prior years and issued for municipal purposes.

Additional information on the City's long-term debt can be found in the notes of the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Parowan City, P.O. Box 576, Parowan, Utah, 84761.

BASIC FINANCIAL STATEMENTS

PAROWAN CITY, UTAH

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash & cash equivalents	\$ 970,190	\$ 2,378,884	\$ 3,349,074
Accounts receivable	11,956	217,877	229,833
Property tax receivable	519,690		519,690
Construction in progress	759,118	1,325,825	2,084,943
Capital assets, net of accumulated depreciation	<u>2,566,232</u>	<u>3,878,531</u>	<u>6,444,763</u>
Total assets	<u>4,827,186</u>	<u>7,801,117</u>	<u>12,628,303</u>
 Liabilities and Net Assets			
Liabilities :			
Cash with negative balances	19,578	299,133	318,711
Accounts payable	373,585	19	373,604
Payroll taxes payable	11,477		11,477
Wages payable	20,892		20,892
Compensated absences payable	26,718	11,207	37,925
Sales tax payable		9,044	9,044
Accrued interest payable	1,344	59,229	60,573
Deposits payable		113,524	113,524
Capital lease obligations payable - current		15,245	15,245
Capital lease obligations payable - long term		1,298	1,298
Deferred revenue property tax receivable	519,690		519,690
Bonds payable			
Portion due within one year	5,797	231,299	237,096
Portion due after one year	<u>83,759</u>	<u>2,441,632</u>	<u>2,525,391</u>
Total liabilities	<u>1,062,840</u>	<u>3,181,630</u>	<u>4,244,470</u>
 Net Assets:			
Invested in capital assets, net of related debt	3,235,794	2,531,425	5,767,219
Restricted for:			
Debt service	57,954	1,177,926	1,235,880
Other purposes	340,181	324,336	664,517
Unrestricted	<u>130,417</u>	<u>585,800</u>	<u>716,216</u>
Total net assets	<u>\$ 3,764,346</u>	<u>\$ 4,619,487</u>	<u>\$ 8,383,833</u>

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Statement of Activities
Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 533,154	\$ 107,682	\$ 23,943	\$ -	\$ (401,529)
Public safety	377,789	381,121	45,648		48,980
Highways & streets	258,910		123,675		(135,235)
Sanitation	142,259	159,895			17,636
Culture & recreation	273,563	41,918	51,251	11,675	(168,719)
Total governmental activities	1,585,674	690,616	244,517	11,675	(638,866)
Business-type activities:					
Water fund	368,879	338,027		141,949	111,097
Sewer fund	273,675	363,341		31,130	120,796
Electric fund	1,236,295	1,512,882		82,905	359,492
Presurized irrigation	96,676	145,605		2,400	51,330
Total business-type activities	1,975,524	2,359,856	-	258,384	642,716
Total government	\$ 3,561,199	\$ 3,050,472	\$ 244,517	\$ 270,059	\$ 3,850

(Continued on page 12)

PAROWAN CITY, UTAH
Statement of Activities
Year Ended June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue from previous page	\$ (638,866)	\$ 642,716	\$ 3,850
General revenues:			
Taxes:			
Property taxes	228,780		228,780
General sales and use taxes	281,562		281,562
Franchise taxes	102,175		102,175
Earnings on investments	30,765	108,231	138,996
Miscellaneous	8,707		8,707
Operating transfers	66,667	(66,667)	-
Total general revenues and transfers	<u>718,656</u>	<u>41,565</u>	<u>760,220</u>
Increase in net assets	79,790	684,281	764,071
Net assets - beginning	<u>3,684,556</u>	<u>3,935,206</u>	<u>7,619,762</u>
Net assets - ending	<u>\$ 3,764,346</u>	<u>\$ 4,619,487</u>	<u>\$ 8,383,833</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

PAROWAN CITY, UTAH**Balance Sheet****Governmental Funds**

June 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash & cash equivalents	\$ 610,431	\$ 359,759	\$ 970,190
Accounts receivables	11,956		11,956
Total assets	<u>\$ 622,387</u>	<u>\$ 359,759</u>	<u>\$ 982,146</u>
Liabilities:			
Cash with Negative Balances	\$ -	\$ 19,578	\$ 19,578
Accounts payable	373,586	-	373,586
Compensated Absences	26,718		26,718
Payroll taxes payable	11,477		11,477
Wages payable	20,892		20,892
Total liabilities	<u>432,673</u>	<u>19,578</u>	<u>452,251</u>
Fund balances:			
Reserved	57,954	340,181	398,135
Unreserved, undesignated	131,760		131,760
Total fund balances	<u>189,714</u>	<u>340,181</u>	<u>529,895</u>
Total liabilities and fund balances	<u>\$ 622,387</u>	<u>\$ 359,759</u>	<u>\$ 982,146</u>

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 529,895
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$6,095,489 and the accumulated depreciation is \$2,770,138	3,325,351
Long-term obligations	(89,556)
Accrued interest on long-term debt	(1,344)
Total net assets - governmental activities	<u>\$ 3,764,346</u>

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes	\$ 228,780	\$ -	\$ 228,780
Sales and use taxes	281,215		281,215
Franchise taxes	102,521		102,521
Licenses and permits	33,277		33,277
Intergovernmental revenues	150,873	13,186	164,059
Charges for services	189,917		189,917
Fines and forfeitures	378,474		378,474
Interest earnings	17,038	13,727	30,766
Miscellaneous revenues	170,662	19,125	189,788
Total revenues	<u>1,552,757</u>	<u>46,038</u>	<u>1,598,796</u>
EXPENDITURES:			
General government	532,628	-	532,628
Public Safety	384,032		384,032
Highways & streets	175,768		175,768
Sanitation	142,259		142,259
Culture & recreation	257,453		257,453
Capital expenditures		44,312	44,312
Total expenditures	<u>1,492,139</u>	<u>44,312</u>	<u>1,536,451</u>
Excess of revenues over (under) expenditures	<u>60,618</u>	<u>1,726</u>	<u>62,345</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	74,790	25,357	100,147
Operating transfers out	(25,357)	(8,123)	(33,480)
Total other financing sources (uses)	<u>49,433</u>	<u>17,234</u>	<u>66,667</u>
Excess of revenues and other sources over (under) expenditures and other uses	110,051	18,960	129,011
FUND BALANCES JULY 1	79,663	321,220	400,883
FUND BALANCES JUNE 30	<u>\$ 189,714</u>	<u>\$ 340,181</u>	<u>\$ 529,895</u>

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ 129,011
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	138,320	
Depreciation expense	<u>(191,826)</u>	
		(53,506)

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Accrued interest on long-term debt	(1,344)	
Repayment of bond principal	<u>5,629</u>	
		4,285

Change in net assets of governmental activities	<u>\$ 79,790</u>
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The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Statement of Net Assets
Major Proprietary Funds
June 30, 2006

	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation Fund	Total
Assets					
Current assets:					
Cash & cash equivalents	\$ 543,480	\$ 945,710	\$ 665,062	\$ 224,633	\$ 2,378,884
Accounts receivable (net of allowance)	37,870	31,166	129,514	19,327	217,877
Due from Other Funds		16,500	30,000		46,500
Total current assets	581,350	993,375	824,577	243,959	2,643,261
Long-term assets:					
Construction in progress		1,325,825			1,325,825
Capital assets, net of accumulated depreciation	1,135,280	604,653	1,416,980	721,619	3,878,531
Total long-term assets	1,135,280	1,930,477	1,416,980	721,619	5,204,356
Total assets	1,716,630	2,923,853	2,241,556	965,578	7,847,617
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Cash with Negative Balances	57,265			241,868	299,133
Accounts payable	19				19
Wages Payable					
Compensated Absences	2,985		8,222		11,207
Accrued Interest Payable	10,731	44,516		3,982	59,229
Sales Tax Payable			9,044		9,044
Refundable Deposits			113,524		113,524
Due to Other Funds	46,500				46,500
Capital lease obligations payable - current			15,245		15,245
Bonds payable - Portion due within one year	22,000	144,000		65,299	231,299
Total current liabilities	139,500	188,516	146,035	311,149	785,200
Long-term liabilities:					
Capital lease obligations payable - long-term			1,298		1,298
Bonds payable - Portion due after one year	496,400	1,806,000		139,232	2,441,632
Total long-term liabilities	496,400	1,806,000	1,298	139,232	2,442,930
Total liabilities	635,900	1,994,516	147,333	450,382	3,228,130
Net assets:					
Invested in capital assets, net of related debt	616,880	(19,523)	1,416,980	517,087	2,531,425
Restricted for:					
Debt service	167,921	861,765		148,240	1,177,926
Other purposes	230,643	75,381	18,312		324,336
Unrestricted	65,286	11,714	658,931	(150,131)	585,800
Total net assets	\$ 1,080,730	\$ 929,337	\$ 2,094,223	\$ 515,196	\$ 4,619,487

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Statement of Revenues, Expenses and Changes in Net Assets
Major Proprietary Funds
Year Ended June 30, 2006

	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation Fund	Total
Operating revenues:					
Charges for Services	\$ 331,666	\$ 348,282	\$ 1,409,000	\$ 138,294	\$ 2,227,243
Penalties			24,631		24,631
Miscellaneous	6,361	15,059	79,251	7,311	107,983
Total operating revenues	338,027	363,341	1,512,882	145,605	2,359,857
Operating expenses:					
Salaries & Wages	54,711	115,187	254,351	10,997	435,246
Employee Benefits	20,071	63,942	126,922	4,367	215,301
Operating Supplies and Materials	8,386	9,850	18,924	4,838	41,998
Power Purchases			521,911		521,911
Professional and Technical services	43,011	33,989	38,089	10,304	125,392
Bad Debt Expense			14,679		14,679
Conferences & Travel	2,691	2,348	6,751		11,790
Insurance	8,473	4,332	9,361	4,879	27,045
Miscellaneous	5,594	3,006	12,307	1,873	22,780
Utilities	35,694	5,644	9,956	2,737	54,030
Repairs and maintenance	37,444	12,704	105,908	13,146	169,201
Depreciation	86,391	19,396	116,268	31,005	253,059
Total operating expenses	302,466	270,398	1,235,425	84,144	1,892,434
Operating income (loss)	35,561	92,943	277,457	61,462	467,423
Nonoperating income (expense):					
Interest Revenue	20,481	62,916	14,472	10,362	108,231
Impact Fees	121,599	11,784	41,680		175,063
Connection, Development Fees	20,350	19,346	41,225	2,400	83,321
Grant Revenue					
Interest Expenses	(66,413)	(3,277)	(870)	(12,532)	(83,092)
Total nonoperating income	96,017	90,769	96,507	230	283,524
Income (loss) before transfers	131,578	183,713	373,964	61,692	750,947
Transfer out	-	-	(66,667)		(66,667)
Transfer in					
Change in net assets	131,578	183,713	307,297	61,692	684,281
Net assets - beginning	949,152	745,624	1,786,926	453,504	3,935,206
Net assets - ending	\$ 1,080,730	\$ 929,337	\$ 2,094,223	\$ 515,196	\$ 4,619,487

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
Statement of Cash Flows
Major Proprietary Funds
Year Ended June 30, 2006

	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation Fund	Total
Cash flows from operating activities:					
Cash received from customers	\$ 332,191	\$ 408,483	\$ 1,551,022	\$ 144,375	\$ 2,436,071
Cash payments to suppliers for goods and services	(141,292)	(71,871)	(721,342)	(37,777)	(972,282)
Cash payments to employees for services	(80,010)	(179,129)	(387,705)	(15,364)	(662,208)
Net cash provided (used) by operating activities	<u>110,889</u>	<u>157,483</u>	<u>441,975</u>	<u>91,234</u>	<u>801,581</u>
Cash flows from noncapital financing activities:					
Operating transfers from (to) other funds	-	-	(66,667)	-	(66,667)
Payments due from (to) other funds	-	-	-	-	-
Net cash (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>(66,667)</u>	<u>-</u>	<u>(66,667)</u>
Cash flows from capital and related financing activities:					
Cash received from impact and connection fees	141,949	31,130	82,903	2,400	258,382
Acquisition of capital assets	(36,536)	(1,634,548)	(118,474)	-	(1,789,558)
Bond proceeds	-	1,950,000	-	-	1,950,000
Interest paid on capital debt	(66,847)	(3,277)	(870)	(13,568)	(84,562)
Principal paid on capital debt	(21,000)	-	-	(66,827)	(87,827)
Net cash (used) by capital and related activities	<u>17,566</u>	<u>343,305</u>	<u>(36,441)</u>	<u>(77,995)</u>	<u>246,435</u>
Cash flows from investing activities					
Interest received	20,481	62,916	14,472	10,362	108,231
Net cash (used) by investing activities	<u>20,481</u>	<u>62,916</u>	<u>14,472</u>	<u>10,362</u>	<u>108,231</u>
Net increase in cash and cash equivalents	<u>148,936</u>	<u>563,704</u>	<u>353,339</u>	<u>23,601</u>	<u>1,089,580</u>
Cash and Cash Equivalents - Beginning	<u>337,279</u>	<u>382,006</u>	<u>311,723</u>	<u>(40,836)</u>	<u>990,171</u>
Cash and Cash Equivalents - Ending	<u>\$ 486,215</u>	<u>\$ 945,710</u>	<u>\$ 665,062</u>	<u>\$ (17,235)</u>	<u>\$ 2,079,751</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 35,561	\$ 92,943	\$ 277,457	\$ 61,462	\$ 467,423
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	86,391	19,396	116,268	31,005	253,059
Increase decrease accounts receivable	(5,835)	626	10,749	(1,233)	4,307
Increase decrease in accounts payable	-	-	-	-	-
Increase decrease in compensated absences	(5,228)	-	(6,415)	-	(11,643)
Increase in other payables	-	44,518	25,588	-	70,106
Increase deposits payable	-	-	18,328	-	18,328
Total adjustments	<u>75,328</u>	<u>64,540</u>	<u>164,518</u>	<u>29,772</u>	<u>334,158</u>
Net cash provided (used) by operating activities	<u>\$ 110,889</u>	<u>\$ 157,483</u>	<u>\$ 441,975</u>	<u>\$ 91,234</u>	<u>\$ 801,581</u>

The notes to the financial statements are an integral part of this statement.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of Parowan City, Utah have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The accompanying basic financial statements present the financial position of various fund types and account groups and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2006.

A. Reporting Entity

For financial reporting purposes, Parowan City, Utah has included all funds and account groups. The City has also considered all potential component units for which it is financially accountable and that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Based on the above criteria, the City has no component units and is not a component unit of any other government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C: Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Parowan City, Utah considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the City's water distribution system.

The Sewer Fund accounts for the activities of the City's sewer collection system.

The Electric Fund accounts for the activities of the City's electric distribution system.

The Irrigation Fund accounts for the activities of the City's irrigation system.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D: Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 Years
Improvements Other Than Buildings	20 Years
Equipment	5-10 Years

Compensated Absences:

The City has followed the practice of recording the estimated liability arising from earned, but unpaid, vacation and compensatory time. The estimated liability for each fund has been reflected on the financial statements.

City policy allows for sick leave at the rate of one day per month for a total of 12 days per year. If not used, sick leave may be accumulated. Effective for full time employees employed as of July 1, 1997, upon termination of employment, either voluntarily or involuntarily, the employee receives payment for one-half of the sick leave previously accumulated at their hourly rate as of July 1, 1997.

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Reconciliation of Government-Wide and Fund Financial Statements:

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.**

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 6,095,489
Accumulated depreciation	<u>(2,770,138)</u>
Total difference	<u>\$ 3,325,351</u>

Long-term liabilities:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements.

Accrued interest on long term debt	\$ (1,344)
Principal portion of bonds	<u>(89,556)</u>
Total Difference	<u>\$ (90,900)</u>

B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net differences, the elements of this difference are as follows:

Capital outlay	\$ 138,320
Depreciation expense	<u>(191,826)</u>
Net difference as reported	<u>\$ (53,506)</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of bonds and related items is as follows:

Accrued interest on long term debt	\$ (1,344)
Repayment of bond principal	<u>5,629</u>
Net Difference	<u>\$ 4,285</u>

F: Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G: Property Tax:

Iron County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30 of each year. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 15 of the following year, delinquent taxes and penalty bear interest of 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H: Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore, all annual appropriations lapse at fiscal year end.

The City can make adjustments to the adopted budget through public hearings. During the fiscal year, the City made budget adjustments through public hearings the effects of which were material and are reflected in management's discussion and analysis.

I: Statement of Cash Flows:

For the purpose of the Statement of Cash Flows, the Water, Sewer, Electric, and Irrigation Utility Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2: CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes the cash account and several investments. The City's deposit and investment policy is to follow the Utah Money Management Act. However, the City does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the City is exposed.

Utah State law requires that City funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the City and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2006, the City had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit and on hand	\$ 144,105
State Treasurer's investment pool	<u>2,886,258</u>
	<u>\$ 3,030,363</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 2. CASH AND INVESTMENTS - CONTINUED

The following paragraphs discuss the City's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$44,106 of the City's bank balances were uninsured or uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk of investments. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial risk.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The City is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 2. CASH AND INVESTMENTS - CONTINUED

Following are the City's investments at June 30, 2006.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF	\$2,886,258	less than 1 year	not rated

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by solely investing in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted above.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy to limit this risk is to adhere to the rules of the Money Management Council. The Council's rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the City's portfolio at the time of purchase.

As of year end, the City had no investments other than an investment in the Utah Public Treasurer's Investment Fund.

Components of cash and investments (including interest earning deposits) at June 30, 2006, are as follows:

Cash on hand and on deposit:

Cash on deposit and on hand	\$ 144,105
Utah State Treasurer's investment pool account	2,886,258
Total cash and investments	<u>\$ 3,030,363</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	\$ 3,349,074
Cash with negative balances	(318,711)
Total cash and investments	<u>\$ 3,030,363</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land & easements	\$ 560,502	\$	\$ (225,004)	\$ 335,498
Construction in progress	<u>534,114</u>	<u>225,004</u>		<u>759,118</u>
Total capital assets, not being depreciated	<u>1,094,616</u>	<u>225,004</u>	<u>(225,004)</u>	<u>1,094,616</u>
Capital assets, being depreciated:				
Buildings & structures	1,049,000	49,799		1,098,799
Infrastructure assets	3,375,053			3,375,053
Machinery & Equipment	316,050	88,518		404,568
Automobiles & trucks	<u>122,450</u>			<u>122,450</u>
Total capital assets, being depreciated	<u>4,862,553</u>	<u>138,317</u>		<u>5,000,870</u>
Accumulated depreciation for:				
Building & Improvements	574,400	15,077		589,477
Infrastructure assets	1,653,388	136,264		1,789,652
Machinery & Equipment	256,180	30,341		286,521
Automobiles & trucks	<u>94,343</u>	<u>10,143</u>		<u>104,486</u>
Total accumulated depreciation	<u>2,578,311</u>	<u>191,825</u>		<u>2,770,136</u>
Total capital assets, being depreciated,	<u>2,284,242</u>	<u>(53,508)</u>		<u>2,230,734</u>
Governmental activities capital assets, net	<u>\$ 3,378,858</u>	<u>\$ 171,496</u>	<u>\$ (225,004)</u>	<u>\$ 3,325,350</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 3. CAPITAL ASSETS - CONTINUED

Business type activities:

Capital assets, not being depreciated

Land	\$ 272,225	\$ 4,500	\$	\$ 276,725
Construction in progress		<u>1,325,825</u>		<u>1,325,825</u>
Total capital assets, not being depreciated	<u>272,225</u>	<u>1,330,325</u>		<u>1,602,550</u>

Capital assets, being depreciated:

Buildings & Structures	95,051			95,051
Improvements other than buildings	6,401,116	423,196		6,824,312
Machinery & Equipment	423,429	36,761		460,190
Automobiles & Trucks	<u>232,865</u>			<u>232,865</u>
Total capital assets, being depreciated	<u>7,152,461</u>	<u>459,957</u>		<u>7,612,418</u>

Accumulated depreciation for:

Buildings	30,323	3,833		34,156
Improvements other than buildings	3,280,768	276,566		3,557,334
Machinery & Equipment	320,865	37,136	(80,920)	277,081
Automobiles & Trucks	<u>124,871</u>	<u>17,170</u>		<u>142,041</u>
Total accumulated depreciation	<u>3,756,827</u>	<u>334,705</u>	<u>(80,920)</u>	<u>4,010,612</u>
Total capital assets, being depreciated,	<u>3,395,634</u>	<u>125,252</u>	<u>80,920</u>	<u>3,601,806</u>
Business type activities capital assets, net	<u>\$ 3,667,859</u>	<u>\$ 1,455,577</u>	<u>\$ 80,920</u>	<u>\$ 5,204,356</u>

Depreciation was charged to governmental activities functions as follows:

General government	\$ 4,811
Public Safety	12,385
Highways & Streets	149,032
Culture & recreation	<u>25,598</u>
Total	<u>\$ 191,826</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 4. LONG-TERM DEBT

The following is a summary of Long-term debt transactions of the City for the year ended June 30, 2006:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Total Issued</u>	<u>Outstanding June 30, 2005</u>	<u>Matured During Year</u>	<u>Outstanding June 30, 2006</u>
Revenue Bonds						
Pressurized Irrigation Bonds	8/7/87	5%	\$ 975,000	\$ 271,359	\$ 66,828	\$ 204,531
Lease Revenue Bonds-1998	1/28/99	3%	126,218	95,185	5,629	89,556
Water Revenue Bond-2001	8/31/01	4.14%	578,400	539,400	21,000	518,400
Sewer Revenue Bonds - 2005	8/31/05	2.75%	1,950,000			1,950,000
Total Revenue Bonds			<u>\$ 3,629,618</u>	<u>\$ 905,944</u>	<u>\$ 93,457</u>	<u>\$ 2,762,487</u>

Revenue Bonds Payable at June 30, 2006, are comprised of the following individual issues:

Pressurized Irrigation System Bonds payable
dated 8-7-87 and payable in installments of
\$64,496 through 2013 bearing interest at 5%. \$ 204,531

Lease Revenue Bonds, Series 1998
Payable in installments of \$8,005 to \$9,010
Annually through 2019 bearing interest of 3% 89,556

Water Revenue Bonds, Series 2001
Payable in annually installments of \$42,946 to
\$43,659 through 2022. The bonds bear interest
of 4.14%. 518,400

Sewer Revenue Bonds Series 2005
payable in annual installments of \$144,000
to \$235,000 through 2006. The bonds
bear interest of 2.75%. 1,950,000

Revenue Bonds payable at June 30, 2006 \$ 2,762,487

Water, and Pressurized Irrigation System Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water, and pressurized irrigation funds.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 4. LONG-TERM DEBT - CONTINUED:

The revenue bonds are collateralized by the revenue of the above funds and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the systems is to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose.

Long - Term Debt charges to maturity are as follows:

\$975,000 Pressurized Irrigation Bond
5% August 7, 1987

Year	Principal Amount	Interest Amount	Total Amount
2007	\$ 65,299	\$ 11,946	\$ 77,245
2008	68,564	8,682	77,246
2009	70,668	5,253	75,921
Total	<u>\$ 204,531</u>	<u>\$ 25,881</u>	<u>\$230,412</u>

\$126,218 Lease Revenue Bonds - Series 1998
3% January 28, 1999

Year	Principal Amount	Interest Amount	Total Amount
2007	\$ 5,797	\$ 2,687	\$ 8,484
2008	5,971	2,513	8,484
2009	6,150	2,334	8,484
2010	6,335	2,149	8,484
2011	6,525	1,959	8,484
2012	6,720	1,763	8,483
2013	6,922	1,562	8,484
2014	7,130	1,354	8,484
2015	7,344	1,140	8,484
2016	7,564	920	8,484
2017	7,791	693	8,484
2018	8,025	459	8,484
2019	7,282	219	7,501
Total	<u>\$ 89,556</u>	<u>\$ 19,752</u>	<u>\$ 109,308</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 4. LONG-TERM DEBT - CONTINUED:

\$578,400 Water Revenue Bonds Series 2001
4.14% August 31, 2001

Year	Principal Amount	Interest Amount	Total Amount
2007	\$ 22,000	\$ 21,462	\$ 43,462
2008	22,000	20,551	42,551
2009	23,000	19,640	42,640
2010	24,000	18,688	42,688
2011	25,000	17,694	42,694
2012	27,000	16,659	43,659
2013	28,000	15,542	43,542
2014	29,000	14,382	43,382
2015	30,000	13,182	43,182
2016	31,000	11,940	42,940
2017	32,000	10,656	42,656
2018	34,000	9,331	43,331
2019	35,000	7,924	42,924
2020	37,000	6,475	43,475
2021	38,000	4,943	42,943
2022	40,000	3,370	43,370
2023	41,400	1,713	43,113
Total	<u>\$ 518,400</u>	<u>\$ 214,152</u>	<u>\$ 732,552</u>

In August, 2005 the City authorized the issuance of a total of \$3,772,000 of Sewer Revenue Bonds, Series 2005. The bonds were purchased by the State of Utah Department of Environmental Quality, Water Quality Board. The City makes draws against the total issue as needed. As of the date of the audit report the City had made two draws against the authorized bond proceeds as follows. The first draw in the amount of \$1,950,000 was made on August 31, 2005 and the second of \$1,400,000 was made on September 5, 2006.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 4. LONG-TERM DEBT - CONTINUED:

Repayment of principal is to be made according to the following schedule with interest charged on outstanding principal at the rate of 2.75%. The first payment is due January 1, 2007.

<u>Year</u>	<u>Principal</u>
2007	\$ 144,000
2008	148,000
2009	152,000
2010	156,000
2011	160,000
2012	165,000
2013	170,000
2014	175,000
2015	179,000
2016	184,000
2017	189,000
2018	195,000
2019	200,000
2020	205,000
2021	211,000
2022	217,000
2023	223,000
2024	229,000
2025	235,000
2026	235,000
	<u>\$ 3,772,000</u>

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 5. DEFINED BENEFIT PENSION PLAN

Plan Description: Parowan City, Utah, contributes to the Local Governmental Noncontributory Retirement System which is part of the cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety and Firefighters Retirement Systems for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 So. Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy: Plan members in the Local Governmental Contributory Retirement System are required to contribute 6% of their annual covered salary (all or part may be paid by the employer for the employee) and Parowan City is required to contribute 7.08% of their annual covered salary. In the Local Governmental Noncontributory Retirement System Parowan City is required to contribute 11.09% of their annual covered salary. In the Public Safety Retirement System for employers with (without) Social Security coverage Parowan City is required to contribute 19.34% of their annual covered salary for members in the noncontributory division. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Parowan City contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$5,394, \$5,066 and \$4,643 respectively and for the Noncontributory Retirement System the Contributions for June 30, 2006, 2005 and 2004 were \$64,234, \$57,101 and \$44,688 respectively and for the Public Safety Noncontributory Retirement System the Contributions for June 30, 2006, 2005 and 2004 were \$20,774, \$14,679 and \$12,054 respectively. The contributions were equal to the required contributions for each year.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 6: IRON COUNTY SUBLEASE-PURCHASE AGREEMENT

Parowan City has subleased the Iron County Fairgrounds project on an annually renewable basis pursuant to the terms of a sublease-purchase agreement with Iron County.

The agreement calls for the City to make payments limited to City funds and that payments made will constitute a current expense of the City. No provision of the agreement shall be construed or interpreted as creating a general obligation or other indebtedness of the City within the meaning of any constitutional or statutory debt limitation.

It is the intent of the City to make lease payments for the term of the bonds issued by Iron County. The term of the bonds is 20 years and if payments are made over the term of the bonds, the investment by the City would approximate \$421,878.

NOTE 7: POWER SALES AND PURCHASE CONTRACT:

Parowan City has entered into a Power Sales Contract (Contract) which expires in June 2027, to purchase approximately 0.364% of the output of the Intermountain Power Project (Project). The City has sold 0.364% of its entitlement to other Project participants. However, the City has the right to recall up to 100% of its entitlement upon meeting certain notice provisions. As long as any of the Intermountain Power Agency bonds are outstanding, the Contract cannot be terminated or amended in a manner which will impair or adversely affect the rights of any of the bondholders.

The City has also signed a power purchase agreement with the City of St. George, Utah dated the 28th day of September 1987. This agreement sells part of the entitlement share owned by the City in the UAMPS Hunter II contract.

Parowan City total entitlement share	3.4956%
Sale to St. George City	<u>1.7583%</u>
Balance retained by Parowan City	<u>1.7373%</u>

St. George pays UAMPS for the account of Parowan for their share beginning with the billings for the month of October 1987. A Copy of the full agreement is on file in the Parowan City office.

NOTE 8: RISK MANAGEMENT

Parowan City is subject to various types of risk such as tort actions, theft, damage or destruction of assets by intent or acts of God, and job related illness or injury.

The City has procured commercial insurance coverage, which in the City's estimation, is adequate to reduce the risk of loss to a manageable level.

PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 9: COMPONENTS OF RESERVED FUND BALANCE

Capital Project Funds:

Cemetery Perpetual Care	\$ 287,304
Fire Department	1,303
Recreation Complex	10,176
Heritage Park	4,179
Community Theater - Cap. Project	1,964
Community Theater Fund	5,899
Airport	29,356
Total Capital Project Funds	<u>\$ 340,181</u>

General Fund:

Bond Sinking & Reserves	<u>\$ 57,954</u>
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Enterprise Funds:

Bond Sinking And Reserve Funds:

Water Revenue Bonds	\$ 167,921
Sewer Revenue Bonds	861,765
Pressurized Irrigation Bonds	148,240
Total Revenue Bond Sinking and Reserve Funds	<u>1,177,926</u>

Impact Fees:

Water Impact Fees	230,643
Sewer Impact Fees	75,381
Electric Fund Impact Fees	18,312
Total Impact Fees	<u>324,336</u>

Total Enterprise Funds:	<u>\$ 1,502,262</u>
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PAROWAN CITY, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2006

NOTE 10: CAPITAL LEASES:

The City entered into capital lease agreements which require the following scheduled payments:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,245	\$ 385	\$ 15,630
2008	<u>1,298</u>	<u>4</u>	<u>1,302</u>
Total	<u>\$ 16,543</u>	<u>\$ 389</u>	<u>\$ 16,932</u>
Enterprise Funds	<u>\$ 16,543</u>	<u>\$ 389</u>	<u>\$ 16,932</u>
Total	<u>\$ 16,543</u>	<u>\$ 389</u>	<u>\$ 16,932</u>

Capitalized leases in the enterprise funds are depreciated over the useful life of the asset (see Note 1). Depreciation on capitalized leases is included with depreciation expense in the various enterprise funds.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

PAROWAN CITY, UTAH
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balance, July 1	\$ 79,663	\$ 79,663	\$ 79,663	\$ -
Resources (inflows):				
Property taxes	195,879	195,879	228,780	32,901
Sales and use taxes	225,000	255,419	281,215	25,796
Franchise taxes	79,265	97,265	102,521	5,256
Licenses and permits	18,500	27,494	33,277	5,783
Intergovernmental revenues	275,984	275,984	150,873	(125,111)
Charges for services	168,175	181,875	189,917	8,042
Fines and forfeitures	211,865	370,544	378,474	7,930
Interest earnings	3,500	3,500	17,038	13,538
Miscellaneous revenues	131,786	131,786	170,662	38,876
Operating transfers in	105,900	108,050	74,790	(33,260)
Amounts available for appropriation	<u>1,495,517</u>	<u>1,727,459</u>	<u>1,707,210</u>	<u>(20,250)</u>
Charges to appropriations (outflows):				
General government	394,997	600,085	532,628	67,457
Public Safety	428,412	428,412	384,032	44,380
Highways & streets	235,300	235,596	175,768	59,828
Sanitation	147,000	160,700	142,259	18,441
Culture & recreation	290,245	298,209	257,453	40,756
Operating transfers out	25,650	30,544	25,357	5,187
Total charges to appropriations	<u>1,521,604</u>	<u>1,753,546</u>	<u>1,517,496</u>	<u>236,050</u>
Budgetary fund balance, June 30	<u>\$ (26,087)</u>	<u>\$ (26,087)</u>	<u>\$ 189,714</u>	<u>\$ 215,800</u>

The notes to the financial statements are an integral part of this statement.

**COMBINING FINANCIAL
STATEMENTS AND SCHEDULES**

PAROWAN CITY, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
 Year Ended June 30, 2006

	Fire Department	Heritage Park	Capital Project Fund Airport Development	Community Theater	Recreation Complex
Assets:					
Cash & cash equivalents	\$ 1,303	\$ 23,757	\$ 29,356	\$ 1,964	\$ 10,176
Total assets	<u>\$ 1,303</u>	<u>\$ 23,757</u>	<u>\$ 29,356</u>	<u>\$ 1,964</u>	<u>\$ 10,176</u>
Liabilities:					
Cash with Negative Balances	\$ -	\$ 19,578	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ 19,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:					
Reserved	1,303	4,179	29,356	1,964	10,176
Unreserved, undesignated					
Total fund balances	<u>1,303</u>	<u>4,179</u>	<u>29,356</u>	<u>1,964</u>	<u>10,176</u>
Total liabilities and fund balances	<u>\$ 1,303</u>	<u>\$ 23,757</u>	<u>\$ 29,356</u>	<u>\$ 1,964</u>	<u>\$ 10,176</u>

PAROWAN CITY, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
Year Ended June 30, 2006

	Community Theater	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
Assets:			
Cash & cash equivalents	\$ 5,899	\$ 287,303	\$ 359,759
Total assets	<u>\$ 5,899</u>	<u>\$ 287,303</u>	<u>\$ 359,759</u>
Liabilities:			
Cash with Negative Balances	\$ -	\$ -	\$ 19,578
Total liabilities			<u>19,578</u>
Fund balances:			
Reserved	5,899	287,303	340,181
Unreserved, undesignated			-
Total fund balances	<u>5,899</u>	<u>287,303</u>	<u>340,181</u>
Total liabilities and fund balances	<u>\$ 5,899</u>	<u>\$ 287,303</u>	<u>\$ 359,759</u>

PAROWAN CITY, UTAH
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	Fire Department	Heritage Park	Capital Project Fund Airport Development	Community Theater	Recreation Complex
REVENUES:					
Interest earnings	\$ 742	\$ 56	\$ 761	\$ -	\$ 722
Intergovernmental revenues			12,943	243	
Miscellaneous revenues					
Total Revenues	<u>742</u>	<u>56</u>	<u>13,704</u>	<u>243</u>	<u>722</u>
EXPENDITURES:					
General government					
Highways & streets					
Sanitation					
Culture & recreation					
Capital outlay			13,625		30,687
Total Expenditures			<u>13,625</u>		<u>30,687</u>
Excess of Revenues over (under) Expenditures	<u>742</u>	<u>56</u>	<u>79</u>	<u>243</u>	<u>(29,965)</u>
OTHER FINANCING SOURCES (USES):					
Debt proceeds					
Operating transfers in			222		25,135
Operating transfers out					
Sale of fixed assets					
Total Other Financing Sources (Uses)			<u>222</u>		<u>25,135</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>742</u>	<u>56</u>	<u>301</u>	<u>243</u>	<u>(4,830)</u>
FUND BALANCES JULY 1	561	4,123	29,055	1,721	15,006
FUND BALANCES JUNE 30	<u><u>\$ 1,303</u></u>	<u><u>\$ 4,179</u></u>	<u><u>\$ 29,356</u></u>	<u><u>\$ 1,964</u></u>	<u><u>\$ 10,176</u></u>

PAROWAN CITY, UTAH
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	Community Theater	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
REVENUES:			
Interest earnings	\$ 251	\$ 11,195	\$ 13,727
Intergovernmental revenues			13,186
Miscellaneous revenues		19,125	19,125
Total Revenues	251	30,320	46,038
EXPENDITURES:			
General government			
Highways & streets			
Sanitation			
Culture & recreation			
Capital outlay			44,312
Total Expenditures			44,312
Excess of Revenues over (under) Expenditures	251	30,320	1,726
OTHER FINANCING SOURCES (USES):			
Debt proceeds			
Operating transfers in			25,357
Operating transfers out	(251)	(7,872)	(8,123)
Sale of fixed assets			
Total Other Financing Sources (Uses)	(251)	(7,872)	17,234
Excess of revenues and other sources over (under) expenditures and other uses		22,448	18,960
FUND BALANCES JULY 1	5,899	264,855	321,220
FUND BALANCES JUNE 30	\$ 5,899	\$ 287,303	\$ 340,181

SUPPLEMENTARY INFORMATION
(Unaudited)

PAROWAN CITY, UTAH

IMPACT FEES

Year Collected	Electric Impact Fee	Water Impact Fee	Sewer Impact Fee
2000	\$	\$ 7,217	\$
2001		29,609	1,344
2002		12,694	576
2003		24,117	1,056
2004	1,467	22,712	1,248
2005	29,980	47,451	2,304
2006	43,934	86,843	11,784
	<u>\$ 75,381</u>	<u>\$ 230,643</u>	<u>\$ 18,312</u>

The present impact fees as well as the next two years impact fees will be used as part of the water system upgrade. Parowan City is planning on upgrading the size of the water lines to fire safety standard to begin during the summer of the 2008 fiscal year. Alpha Engineering, Parowan City Engineers, are designing the system upgrade and expansion. This is to be done for new growth and to tie into the current system for better water pressure, and increase fire flow, and to be in compliance with the State fire code. Also 25 fire hydrants will be connected to larger pipes for fire protection. These are necessary for the new growth. Right now the system is under sized for existing as well as new growth. Also 20 new fire hydrants will be added to the system.

Engineering and construction have been taking place to build the new sewer lagoon system to accommodate the new growth along with the older part of town. It also allows for Brian Head sewage to go into our system. That project is very close to completion. Impact Fees are charged to help pay for the new growth. Also in the very near future new sewer lines are planned to be built from 2200 West to 2200 North. This will tie in the Heritage Hills Subdivision and the other growth along Old Highway 91. It will pick up Eagle Rock Subdivision and also Foothills RV Park. This will eliminate the lift stations for these two developments. On the north east side of town the line will tie in Travel America, which will also eliminate their lift station. It will also tie in the airport and the new growth that is taking place at the airport.

The electric department has been building a new loop line to tie the electric system together. This is necessary to help the new growth areas. They have also purchased new transformers to accommodate the new growth. The power department is trying to get away from the 2400 kw power lines and converting to the 7200 kw lines to make the power more efficient for everyone. This will be accomplished through an upgrade throughout the entire community which will allow for increased service to existing as well as capacity for future growth.

PAROWAN CITY, UTAH

SEWER STATISTICS

Sewer Connections: 1,312

Sewer Rates: \$23.52 per connection

Insurance Information:

General Liability

Aggregate Limit per Policy	\$2,000,000
Deductible	-0-
Combined Single Limit per Occurrence	\$2,000,000

Auto Bodily Injury

Aggregate Limit per Policy	\$2,000,000
Deductible	-0-
Combined Single Limit per Occurrence	\$2,000,000

Auto Property Damage

Aggregate Limit per Policy	\$2,000,000
Deductible	-0-
Combined Single Limit per Occurrence	\$2,000,000

Underinsured Motorist

Aggregate Limit per Policy	\$ 50,000
Single Limit per Accident	\$ 50,000

Uninsured Motorist

Aggregate Limit per Policy	\$ 65,000
Single Limit per Accident	\$ 65,000

No-Fault Sewer Clean-up

Maximum Limit per Claim	\$ 2,500
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COMPLIANCE SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable City Council
Parowan City, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Parowan City, Utah as of and for the year ended June 30, 2006, which collectively comprise Parowan City, Utah's basic financial statements and have issued our report thereon dated February 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Parowan City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Parowan City, Utah in a separate letter dated February 26, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Parowan City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

Parowan City, Utah
Page 2

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Parowan City, Utah in a separate letter dated February 26, 2007.

This report is intended solely for the information and use of the management of Parowan City, Utah, and applicable federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
February 21, 2007

Wilson & Company

Certified Public Accountants / A Professional Corporation

PAROWAN CITY, UTAH AUDITOR'S REPORT ON COMPLIANCE WITH STATE FISCAL LAWS For the Year Ended June 30, 2006

The Honorable City Council
Parowan City, Utah

We have audited the general purpose financial statements of Parowan City, Utah, for the year ended June 30, 2006 and have issued our report thereon dated February 21, 2007. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation
Liquor Law Enforcement
Other Compliance Requirements

B&C Road Funds
Impact Fees

The management of Parowan City, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis evidence about the City's compliance with the requirements. We believe that our audit provides a reasonable basis for our opinion.

Parowan City, Utah

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The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Parowan City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of service allowed and unallowed; eligibility; matching, level of effort, or earmarking; reporting, and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
February 21, 2007

Wilson & Company

Certified Public Accountants / A Professional Corporation

February 26, 2007

Honorable Mayor and City Council
Parowan City, Utah

We have examined the financial statements of Parowan City for the year ended June 30, 2006, and have issued our report thereon dated February 21, 2007. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Parowan City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Parowan City taken as a whole. However, our study and evaluation disclosed the following conditions that we believe require the City's further attention.

Fixed Asset Management System

We noted during our exam that the City's fixed asset management system needed substantial effort to meet the requirements of GASB#34.

We recommend that the City operate the fixed asset management system so that the requirements of GASB#34 are met in a timely manner.

SBSU Perpetual Care Bank Account

We noted that the City continues to maintain a bank account for perpetual care funds.

We suggest that this account be closed since perpetual care funds can easily be tracked by the general ledger and transferred to a PTIF account as received.

Bond Covenants-Sinking Fund

We noted during our exam that the sinking fund payment on the sewer bonds was not adjusted as required based on the debt service for the next year.

We suggest that the City mark January each year as the time to readjust the monthly sinking fund payment as required by the covenants.

Bond Covenants-Water Fund

We noted during the exam that the payment into the capital replacement fund of 5% of the budget of the water system was not adjusted.

We suggest the City make this adjustment at the time of the approval of the budget so that the payment into the capital replacement fund is 5% of the current water system budget.

Sewer Bonds-Series 2005 Rate Covenant

We noted that the Series 2005 Sewer Bonds have a rate covenant requiring net revenues of the sewer system to equal 1.25 times debt service of the sewer fund.

We suggest the City become very familiar with this rate covenant to assure that net revenues will be equal to 1.25 times the next years debt service. Such monitoring may require rate adjustments in the future to be in compliance.

Sewer Impact Fees

We noted in our exam that sewer impact fees are deposited into a PTIF account that also contains restricted sewer development funds.

We suggest that impact fees be placed in a separate account which will facilitate monitoring the outstanding balance of such fees.

PTIF Accounts

We noted in the exam that PTIF accounts #2158, #2159, and #2160 appear to apply to old bonds.

We suggest that these PTIF accounts be closed and the balances be transferred into the water unrestricted PTIF account. Doing so will ease administration.

Impact Fees

We noted in our exam that some water impact fees collected in 2000 had not been spent within six years of collection and that water and sewer impact fees collected in 2001 will need to be spent in the fiscal year ending June 30, 2007 to be in compliance with state law..

We suggest that the City immediately review the capital facilities plan for eligible projects and expend impact fees collected for such projects within the time allotted by law. The City should also analyze whether costs were incurred in the past year which are eligible for the use of impact fees and reimburse the applicable fund for such costs.

Uncollected Accounts Receivable

We noted during our audit that the uncollected utility accounts receivable in the 90 days and older category as of June 30, 2006 increased to \$25,744.51.

We recommend that the City review the current utility deposit requirements and collection policies and procedures to ensure the effective collection of uncollected accounts receivable.

State Surcharge Payments

We noted during our audit that Justice Court State surcharge payments were not paid to the State by the 10th of the month following collection as required by Utah Law and that in some cases were not remitted in the correct amounts.

We recommend that the City work with the Justice Court to ensure that State Surcharge payments are paid to the State by the 10th of the month following collection.

The above conditions were considered in determining the nature, timing, and extent of the audit tests applied in our examination of the City's June 30, 2006, financial statements.

Our comments are intended to be constructive in nature. The absence of positive or complimentary comments does not imply that the City operates in an inefficient or ineffective manner. We welcome the opportunity to discuss these conditions in further detail and express our appreciation to the staff for their assistance during the examination.

This report is intended solely for the use of management and the Utah State Auditor and should not be used for any other purpose.

Sincerely,

A handwritten signature in cursive script, appearing to read "Wilson & Company", written over the printed name.

WILSON & COMPANY

Certified Public Accountants

Cedar City, Utah

PAROWAN CITY CORPORATION

5 SOUTH MAIN * P.O. BOX 576

PAROWAN, UTAH 84761

PHONE (435) 477-3331 * FAX (435) 477-8092

*James C. Robinson, Mayor
*Valorie Topham, City Recorder, CMC/AEE
*Nancy Edwards, City Treasurer, CMFA
*Kenneth H. Adams, Justice Court Judge
*Preston Griffiths, Chief of Police
*Albert Orton, Fire Chief
*Justin Wayment, City Attorney

*Joc Melling, City Manager
*Lloyd Benson, Council person
*Mary Halterman, Council person
*Kevin Porter, Council person
*Dale Bettridge, Council person
*John Robertson, Council person

March 27, 2007

State Auditors Office
211 State Capitol Building
Salt Lake City, Utah 84114

To Whom It May Concern:

This letter is in response to the management letter prepared by our auditors, Wilson & Company, dated February 26, 2007. The following statements are in response to this letter.

FIXED ASSET MANAGEMENT SYSTEM: The City will operate the fixed asset management system so that the requirements of GASB #34 are met in a timely manner.

SBSU PERPETUAL CARE BANK ACCOUNT: The City will close the Perpetual Care bank account and track the funds through the general ledger and make transfers to the PTIF account as the funds are received.

BOND COVENANTS - SINKING FUND: The City will mark January each year as the time to readjust the monthly sewer sinking fund payment as required by the covenants.

BOND COVENANTS - WATER FUND: The City will make the adjustment of 5% of the budget of the water system at the time of the approval of the budget to put into the capital replacement fund, to comply with the water fund bond covenants.

SEWER BONDS-SERIES 2005 RATE COVENANT: The City will become familiar with the rate covenant to assure that net revenues will be equal to 1.25 times the next years debt service. We realize monitoring may require rate adjustments in the future to be in compliance.

SEWER IMPACT FEES: The City will separate the sewer impact fees from the restricted sewer development funds and put them into a separate account, which will facilitate monitoring the outstanding balance of the sewer impact fees.

PTIF ACCOUNTS: The City will close PTIF accounts #2158, #2159, and #2160 and transfer the balances into the water unrestricted PTIF account since they apply to old bonds.

IMPACT FEES: The City has plans to use the present water impact fees as well as the next two years impact fees to upgrade the size of the water lines to fire safety standard to begin during the summer of the 2008 fiscal year. Since there is not sufficient funds available for the project we will add other funds with the impact fees to do the project. The City will review the capital facilities plan for eligible projects and expend impact fees collected for such projects. The City will also analyze whether costs were incurred in the past year which are eligible for the use of impact fees and reimburse the applicable fund for such costs.

UNCOLLECTED ACCOUNTS RECEIVABLE: The City will review the current utility deposit requirements and collection policies and procedures to ensure the effective collection of uncollected accounts receivable. Our City Attorney has been taking measures to collect some of the accounts receivable accounts.

STATE SURCHARGE PAYMENTS: The City Treasurer has met with the Justice Court personnel to ensure that State Surcharge payment deadlines are met.

Sincerely,

A handwritten signature in cursive script that reads "Valorie Topham".

Valorie Topham
City Recorder